

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7326**

**BILL NUMBER:** HB 1003

**NOTE PREPARED:** May 1, 2013

**BILL AMENDED:** Apr 26, 2013

**SUBJECT:** Nonpublic School Scholarships.

**FIRST AUTHOR:** Rep. Behning

**FIRST SPONSOR:** Sen. Eckerty

**BILL STATUS:** Enrolled

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** *School Scholarship Tax Credit:* This bill provides that a taxpayer may carry forward a School Scholarship Income Tax Credit for a taxable year that begins after December 31, 2012.

*Choice Scholarship* - The bill specifies eligibility standards for Choice Scholarships. It makes various administrative changes to the Choice Scholarship Program.

The bill removes a provision that allows the Department of Education to make only a partial Choice Scholarship Grant.

The bill provides that an eligible Choice Scholarship student is eligible to receive as part of the Choice Scholarship any applicable amount that a school corporation (in which the student has legal settlement) would receive for a student as part of a Special Education Grant. It also provides that a public school is not required to make available special education and related services to an eligible Choice Scholarship student who receives special education funding as part of the Choice Scholarship. The bill provides that a school corporation may not include in its Special Education Grant count an eligible Choice Scholarship student who receives an amount related to special education as part of a Choice Scholarship. It requires the State Board of Education to adopt rules, including emergency rules, for the provision of special education or related services to an eligible Choice Scholarship student who receives special education funds as part of the Choice Scholarship.

The bill provides that the Choice Scholarship shall be distributed each semester during the school year.

The bill amends the definition of "eligible student" for purposes of the statutes concerning scholarship granting organizations.

*Study Committee:* The bill provides that the Legislative Council shall assign certain topics to the Commission on Education Interim Study Committee.

The bill makes conforming amendments.

**Effective Date:** Upon Passage; January 1, 2013 (retroactive); July 1, 2013.

**Explanation of State Expenditures:** *Choice Scholarship Eligibility:* The bill expands the pool of students who would be eligible for Choice Scholarships by adding:

1. Children with disabilities who require special education with household income under 200% of the amount needed to qualify for free or reduced priced lunch.
2. Students enrolled in nonpublic schools with household income under 150% of the amount needed to qualify for free or reduced priced lunch, if their public school of attendance is in the lowest performance category before June 30, 2013 or the lowest two categories established after June 30, 2013 for at least two years.
3. Students enrolled in kindergarten through 12th grade (instead of in 1st through 12th grade) in an Indiana public school, including a charter school, for two semesters immediately before they receive a Choice Scholarship with household income under 150% of the amount needed to qualify for free or reduced price lunch.
4. A student or siblings of a student who have received a Choice Scholarship or school scholarship of from a scholarship granting organization with household income under 150% of the amount needed to qualify for free or reduced priced lunch

The bill also provides that a child who initially meets the income eligibility requirements for a Choice Scholarship and whose household income subsequently increases remains eligible for the scholarship, if the child's household income does not exceed 200% of the amount necessary to qualify for free or reduced price lunch.

The increase in eligible children due to these changes is indeterminable, but could be significant. Ultimately, the impact of expanding the pool of students who are eligible for Choice Scholarships would depend on the tuition support appropriation by the General Assembly and available space in private schools. If the addition of more Choice Scholarship students causes the actual expenditures for Choice Scholarships and the school formula to public schools to exceed the appropriation, then the distribution to public schools and scholarship recipients under the appropriation would be proportionately reduced.

The Choice Scholarship could include the state special education tuition support funding the public school would have received if the student had been counted in a public school's special education count. Under current law, the public school is required to provide special education services and include the nonpublic student in their special education count. The public school would not have any educational responsibilities for the special education student if the scholarship includes special education funding. The impact is probably minor since the nonpublic special education student is probably receiving services from a public school.

The maximum number of scholarships for the 2011-12 school year was 7,500, and the maximum number of scholarships for the 2012-13 school year is 15,000. There is no limit on the number of Choice Scholarships beginning in FY 2014. The following table has the number of scholarships and value of those scholarships for FY 2012 and FY 2013.

<b>Fiscal Year</b>	<b>Number of Scholarships</b>	<b>Value of Scholarships</b>	<b>Average Scholarship</b>
2012	3,911	\$ 15.6 M	\$3,988.75
2013	9,135	\$37.3 M	\$4,083.10

*Choice Scholarship Approval:* The time line for the Department to approve a Choice Scholarship should have minor fiscal impact on the Department.

*Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes relating to the School Scholarship Tax Credits proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

*Study Committee:* This bill requires the following topics be assigned to Commission on Education Interim Study Committee:

1. The academic performance of Choice Scholarship schools in comparison to public schools.
2. The graduation rates for Choice Scholarship schools as compared to public schools.
3. Student growth and achievement for students enrolled in Choice Scholarship schools over time.
4. Various student demographics, including income, race, and special needs, for choice scholarship students as compared to students enrolled in public schools.
5. Why parents choose to enroll a child in a choice scholarship school.

The committee is to operate under the policies governing study committees adopted by the Legislative Council.

The impact of this provision would depend on action by the Legislative Council. Since the commission is established the impact should be minor.

**Explanation of State Revenues:** *School Scholarship Tax Credit:* The bill would allow tax credits for contributions to school scholarship granting organizations beginning in tax year 2013 to be carried forward for up to nine years. This change could potentially increase the long-run revenue loss from the tax credit by allowing taxpayers who could not otherwise exhaust the credit in one year to carry forward unused credit amounts.

The bill would allow a taxpayer to designate a participating school for which the taxpayer's contribution must be used as scholarships. The provision could increase contributions if the taxpayer can designate a private school to receive their contributions.

Current law provides a nonrefundable tax credit to individuals and corporations that make contributions to a scholarship granting organization. The credit is equal to 50% of the amount of the charitable contribution, and may be taken against the Individual and Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Total credits may not exceed \$5.0 M in any fiscal year, and the tax credit may not be carried back or carried forward. In tax year 2010, about \$183,000 in School Scholarship credits was claimed. However, through April 30, 2013, \$2.4 M in credits has been approved for FY 2013.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** DOR, DOE.

**Local Agencies Affected:** Schools

**Information Sources:** OFMA Income Tax Database. DOR's School Scholarship Credit Report - <http://www.in.gov/dor/4305.htm> .

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